

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Alarcon Analyst: Roger Lackey Bill Number: SB 1568

Related Bills: See Prior Analysis Telephone: 845-3627 Amended Date: 05/08/2000

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Enterprise Zone Designation Limits/Authorizes An Additional 11 Zones/Enterprise Zone Hiring Credits.

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended April 6, 2000.

X FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED April 6, 2000, STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

Under the Government Code, this bill would increase the number of enterprise zones that may be designated from 39 to 50 over a four-year period starting in 2001. Also, the bill would provide the Trade and Commerce Agency (TCA) the authority to approve an application for the reconfiguration of the geographic boundaries of an existing enterprise zone (EZ) within certain guidelines.

Under the Personal Income Tax Law (PITL) and Bank and Corporation Tax Law (B&CTL), this bill would increase the existing EZ Hiring Credit's "qualified wages" from an amount not to exceed 150% of the minimum wage to an amount not to exceed 200% of the minimum wage.

Also, under the PITL and B&CTL, this bill would provide an additional credit equal to 10% of the qualified wages for each of the first six years of employment in which the employer provided fully paid health benefits to the employee. For purposes of this credit, qualified wages are defined as the portion of wages that does not exceed 150% of the minimum wage.

SUMMARY OF AMENDMENT

The May 8, 2000, amendments deleted the earlier credit provisions, and added new credit language that would increase the existing EZ Hiring Credit's "qualified wages" from 150% to 200% of the minimum wage. The amendments also added the Health Benefits Credit and significantly revised the wording from the prior version to more closely conform with language used for other EZ credits.

Board Position:

<u> </u> S	<u> </u> NA	<u> </u> NP
<u> </u> SA	<u> </u> O	<u> </u> NAR
<u> </u> N	<u> </u> OUA	<u> X </u> PENDING

Legislative Director

Date

Johnnie Lou Rosas

6/12/2000

As a result of the amendments, a number of the policy, implementation, and technical considerations identified in the department's analysis of the bill as amended April 6, 2000, have been resolved. The remaining considerations, in addition to concerns raised as a result of the amendments, have been included below.

Except for the discussion of above, the department's analysis of SB 1568 as amended April 6, 2000, still applies.

Policy Considerations

The credits created by this bill are allowed on the same expenditures as the existing credits. For example, the existing hiring credit is for a variable percentage of wages up to 150% of the minimum wage, while the credit for the employer who provides qualified employees with fully paid health benefits is for 10% of wages up to 150% of the minimum wage. Therefore, the taxpayer would receive multiple credits--one credit under the existing hiring credit and another under the health benefits credit as a result of paying employee's health benefits, and both for wage expenses up to 150% of the minimum wage.

In addition, the health benefits credit is calculated using a percentage of the minimum wage rather than being calculated against the actual health benefits paid by the employer. As a result, the current calculation of the health benefits credit could equal the actual costs of health benefits paid by the employer. Generally, credits are tied to the activity (in this case, providing health insurance) that the Legislature seeks to encourage.

Implementation Considerations

The terms "health benefits," "minimal co-payments," and "full dependent coverage" should be defined to ensure that the author's intention regarding the level of required health coverage is clear.

Credits are typically enacted with a carryover period limit of eight years, to allow the taxpayer sufficient time to use the full credit. The new health benefits credit provides an unlimited carryover period.

Technical Considerations

The first line of Section 17053.76 (a) makes an erroneous reference to "income year," when the proper term under the PITL should be "taxable year." Also, Section 23622.9 (a) also contains two references to "taxable year," when the proper term under the B&CTL should be "income year." Amendment 1 and 3 are provided to resolve this inaccuracy.

The health benefits credit would be reduced by any credit allowed under three specified sections. However, two of these sections are expired and the third is a LAMBRA section, which would not apply to taxpayers in an enterprise zone. Amendments 2 and 4 would correct these references.

Tax Revenue Estimate

Based on data and assumptions discussed below, the revenue losses are projected as follows:

Estimated Revenue Impact of SB 1568 As Amended May 8, 2000 New Zones Effective From 1/1/2001, Tax Credits 1/1/2000					
Revenue Impact	2000/01	2001/02	2002/03	2003/04	2004/05
Additional Zones	N/A	(\$Minor)	(\$1M)	(\$2M)	(\$5M)
Hiring Credit	(\$300K)	(\$550K)	(\$700K)	(\$850K)	(\$900K)
Health Benefits	(\$200K)	(\$400K)	(\$600K)	(\$800K)	(\$1M)
Total Impact (in \$M)	(\$0.5)	(\$1)	(\$2.5)	(\$4)	(\$7)

Any possible changes in employment, personal income, or gross state product that might result from this provision are not taken into account.

Tax Revenue Discussion

It is not possible to predict in advance the location and business characteristics of additional EZs that may be designated in any given year. However, order of magnitude revenue impacts were developed as follows:

Additional 11 Enterprise Zones (phased-in):

Based on assumptions used previously for other proposed EZ expansions, it is projected that, on average, revenue losses for each additional zone would be less than \$100,000 in the first year after designation, \$250,000 in the second year, \$500,000 by the third full year, and \$1 million in the fourth year. The estimates above reflect this pattern for two additional designations in 2001, a total of six new zones (compared to current law) in 2002, a total of eight new zones (compared to current law) for 2003, and a total of ten new zones compared to current law for 2004.

Existing Hiring Credit Change:

The existing hiring credit would have rather small revenue losses projected annually beginning in 2000-1. Approximately \$300,000 impact for 2000-1, \$550,000 for 2001-2, and \$750,000 for 2002-3.

The total number of EZ employees (working five years or less) qualifying taxable employers for the existing hiring credit is projected to be on the order of 12,000. At an additional 1,200 (10%) employees qualifying under this bill annually with one-half making \$1,000 more than 150% of the minimum wage, the revenue loss from the credit would be on the order of \$300,000 for the first full year.

The prior revenue estimate was based on a credit equal to 10% for wages paid that were between 150% and 200% of the minimum wage. The May 8, 2000, amendment revised the credit language and would now provide a credit equal to 50% in the first year, 40% in the second year, 30% in the third year, 20% in the fourth year, and 10% in the fifth year for wages paid to a qualified employee not to exceed 200% of the minimum wage. As a result, the projected revenue losses for the existing hiring credit increased in this analysis.

Health Benefits Credit:

Minor losses would be projected annually beginning in 2000-1. Approximately \$200,000 for 2000-1, \$400,000 for 2001-2, and \$600,000 for 2002-3.

If, for the same number of additional qualifying employees as above (1,200), as many as 10% (120) earning an average wage of \$17,000 receive full medical coverage from employers, the revenue loss from the 10% credit would be \$204,000 for the first full year.

BOARD POSITION

Pending.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO SB 1568
As Amended May 8, 2000

AMENDMENT 1

On page 19, line 3, strikeout "income" and insert:

taxable

AMENDMENT 2

On page 26, amend lines 32 to 36, as follows:

(h) The credit allowable under this section shall be reduced by ~~the credit allowed under Sections 17053.10, 17053.17 and 17053.46 claimed for the same employee.~~ The credit shall also be reduced by the federal credit allowed under Section 51 of the Internal Revenue Code.

AMENDMENT 3

On page 38, line 11 and line 16, strikeout "taxable" and insert:

income

AMENDMENT 4

On page 46, amend lines 7 to 11, as follows:

h) The credit allowable under this section shall be reduced by ~~the credit allowed under Sections 23623.5, 23625 and 23646 claimed for the same employee.~~ The credit shall also be reduced by the federal credit allowed under Section 51 of the Internal Revenue Code.